

1 **DIRECT TESTIMONY**

2 **OF**

3 **JAMES E. SWAN, IV**

4 **ON BEHALF OF**

5 **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

6 **DOCKET NO. 2005-113-G**

7 **Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.**

8 A. My name is James E. Swan, IV. My business address is 1426 Main Street,
9 Columbia, South Carolina.

10 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

11 A. I am employed by SCANA Services, Inc. and serve as the Controller of SCANA
12 Corporation and its subsidiaries, including South Carolina Electric & Gas
13 Company (the "Company" or "SCE&G").

14 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND BUSINESS**
15 **BACKGROUND.**

16 A. I received a Bachelor of Science degree in Accounting from Clemson University,
17 cum laude, in May of 1982. In June, 1982 I joined the public accounting firm of
18 Touche Ross & Co. as an auditor, and I left the firm as a senior accountant in
19 June 1986 to become the Controller of Nautilus Sports/Medical Industries, Inc., a
20 manufacturer of fitness equipment. In December of 1987, I left Nautilus and
21 returned to the Touche Ross accounting firm as an audit manager. While with

1 Touche Ross and its successor, Deloitte & Touche LLP, I was responsible for the
2 performance of audit and related services for clients in the utilities,
3 manufacturing and distribution, healthcare, telecommunications and technology
4 industries. While at Deloitte & Touche, I served in a risk management role in the
5 firm's National Office, and I also devoted a significant amount of time to
6 resolution of technical accounting issues and to serving Securities and Exchange
7 Commission (SEC) registrants. I left the firm as an audit partner in August 2000
8 to join SCANA as an assistant controller. I became SCANA's and SCE&G's
9 Controller in the spring of 2002. I am a certified public accountant in North
10 Carolina and South Carolina, and I am a member of the American Institute of
11 Certified Public Accountants.

12 **Q. HAVE YOU PREVIOUSLY OFFERED TESTIMONY IN REGULATORY**
13 **PROCEEDINGS?**

14 A. No. This is my first time appearing as a witness.

15 **Q. PLEASE DESCRIBE THE SCOPE OF THE TESTIMONY YOU ARE**
16 **PRESENTING.**

17 A. In connection with Docket No. 2005-113-G and the Company's Application for
18 Increases in Gas Rates and Charges (the "Application"), the Company included
19 certain exhibits containing financial information. I will discuss a number of the
20 exhibits included in the Application and ask the Commission to incorporate the
21 Application into the record of these hearings by reference. The purpose of my

1 testimony is to describe each of these exhibits and certain other accounting and
2 financial information.

3 **Q. HOW ARE THE BOOKS AND RECORDS OF THE COMPANY**
4 **MAINTAINED?**

5 A. The books and records of the Company are maintained in accordance with
6 generally accepted accounting principles and the Uniform System of Accounts
7 for major utilities as prescribed by the Federal Energy Regulatory Commission
8 (the "FERC"). This Uniform System of Accounts has been adopted by the
9 Commission and is followed by major utilities subject to its jurisdiction.
10 Compliance with generally accepted accounting principles and the Uniform
11 System of Accounts is necessary in order to provide consistent and pertinent
12 financial information to the general public, investors, regulators and the financial
13 community.

14 **Q. WHAT STEPS DOES THE COMPANY TAKE TO ENSURE THAT ITS**
15 **BOOKS AND RECORDS ARE ACCURATE AND COMPLETE?**

16 A. The Company maintains and relies upon an extensive system of internal
17 accounting controls, audits by both internal and external auditors, and financial
18 oversight by the Audit Committee of SCANA Corporation's Board of Directors.
19 The Company's system of internal accounting controls is designed to provide
20 reasonable assurance that all transactions are properly recorded in the books and
21 records and that assets are protected against loss or unauthorized use.

1 Historically, the Company's system of internal accounting controls was reviewed
2 annually by its independent auditors, Deloitte & Touche LLP, in connection with
3 their financial statement audits. Beginning in 2004, however, Section 404 of the
4 Sarbanes-Oxley Act of 2002 required that our internal control system be
5 subjected to an even more thorough analysis. In 2004, management fully
6 documented its significant accounting processes and thoroughly tested its key
7 accounting controls, while Deloitte & Touche performed a separate independent
8 audit of those controls and of the adequacy of the management assessment
9 process itself. No material weaknesses in our controls were found as a result of
10 either the management assessment process or Deloitte & Touche's audit. Similar
11 management assessments and internal control audits will be required annually.

12 **Q. WILL YOU PLEASE DESCRIBE EXHIBIT NO. ____ (JES-1) (EXHIBIT**
13 **NO. D-I) OF THE APPLICATION)?**

14 A. Exhibit No. ____ (JES-1) consists of seven (7) pages and includes SCE&G's
15 Consolidated Balance Sheet as of December 31, 2004, and its Consolidated
16 Statement of Income for the twelve months ended December 31, 2004. These
17 Statements were prepared in accordance with generally accepted accounting
18 principles and are consistent with similar statements previously filed with this
19 Commission.

20 **Q. WILL YOU PLEASE DESCRIBE EXHIBIT NO. ____ (JES-2) (EXHIBIT**
21 **D-II, PAGE 1 OF 3, OF THE APPLICATION)?**

1 A. Exhibit No. ____ (JES-2) is an analysis of the Company's gas operations that
2 identifies operating revenues and expenses, income for return, original cost rate
3 base and rate of return for the twelve months ended December 31, 2004 (the "test
4 year").

5 **Column 1** provides a description of the items included in determining income for
6 return and original cost rate base.

7 **Column 2** presents the per books amounts used to determine income for return
8 and original cost rate base for the test year.

9 **Column 3** presents the Company's accounting and pro forma adjustments that are
10 necessary to reflect known and measurable changes to the results of the
11 Company's gas operations for the test year. The detail for each pro forma
12 adjustment by line item is included in Exhibit No. _ (Exhibit No. D-II, page 3 of
13 3, of the Application).

14 **Column 4** presents the results of the Company's gas operations as adjusted for
15 accounting and pro forma adjustments.

16 **Q. WOULD YOU PLEASE EXPLAIN THE DERIVATION OF THE RATE**
17 **OF RETURN ON ORIGINAL COST RATE BASE THAT APPEARS ON**
18 **EXHIBIT NO. ____ (JES-2) (EXHIBIT NO. D-II, PAGE 1 OF 3, OF THE**
19 **APPLICATION)?**

1 A. Yes. If you take the total income for return on line 11 and divide it by the total
2 original cost rate base as reflected on line 21, the result of this calculation is the
3 rate of return on original cost rate base as reflected on line 22.

4 **Q. WILL YOU PLEASE DESCRIBE EXHIBIT NO. ____ (JES-3) (EXHIBIT**
5 **D-IV OF THE APPLICATION)?**

6 A. Exhibit No. ____ (JES-3) is a Statement of Fixed Assets - Gas at December 31,
7 2004. This statement details gross Plant in Service and Construction Work in
8 Progress ("CWIP") by FERC functional classification identified in **Column 1**.
9 **Column 2** includes the amounts recorded on the books and records of the
10 Company at December 31, 2004.
11 **Column 3** details the accounting and pro forma adjustments that effect Plant in
12 Service and CWIP as presented in Exhibit D-II, page 1 of 3, of the Application.
13 **Column 4** shows the balances after including the effects of the adjustments
14 identified in Column 3.

15 **Q. Will you please describe Exhibit No. ____ (JES-4) (Exhibit D-V of the**
16 **Application)?**

17 A. Exhibit No. ____ (JES-4) consists of two sections. The first section is the
18 Company's Statement of Depreciation Reserves for Total Gas at December 31,
19 2004.
20 **Column 2** shows the amounts recorded on the Company's books for the Reserve
21 for Depreciation by FERC functional classification as described in **Column 1**.

1 **Column 3** details the adjustments to Depreciation Reserves as presented in
2 Exhibit D-II, page 1 of 3, of the Application.

3 **Column 4** shows the balances after including the effects of the adjustments
4 identified in Column 3.

5 The second section is a Schedule of Annual Depreciation Rates for Gas
6 Operations detailed by FERC functional classification. The column labeled
7 “Current” represents the rates that currently apply to the FERC functional
8 classifications in **Column 1**. The column labeled “Requested” represents rates
9 that the Company is proposing based on a recently completed depreciation study.

10 **Q. WILL YOU PLEASE DESCRIBE EXHIBIT NO. ____ (JES-2) (EXHIBIT**
11 **D-II, PAGE 3 OF 3, OF THE APPLICATION)?**

12 A. Exhibit No. ____ (JES-2) details the accounting and pro forma adjustments that
13 the Company is proposing in this proceeding by the component of income and
14 rate base to which each adjustment relates.

15 **Q. PLEASE LIST THE ACCOUNTING AND PRO FORMA**
16 **ADJUSTMENTS THAT YOU INTEND TO DISCUSS IN YOUR**
17 **TESTIMONY.**

18 A. The accounting and pro forma adjustments that I will be discussing are as
19 follows. (The adjustment numbers correlate with the numbers on Exhibit, D-II,
20 page 3 of 3.)

<u>No.</u>	<u>Adjustment Title</u>	<u>Page</u>
1.	Annualize Revenue from Lateral Transfers	9
2.	Annualized Wages, Benefits and Payroll Taxes	10
3.	Employee Benefit Related Adjustments	10
3a.	Annualize Pension Income	10
3b.	Annualize Other Post Employment Benefits	11
4.	Adjust Long-Term Disability Amortization	11
5.	Remove Employee Clubs	12
6.	Manufactured Gas Plant Related Adjustments	12
6a.	Amortize MGP Remediation Costs	13
6b.	Annualize Ongoing Expenses for MGP Remediation	14
7.	Annualize Cost of ORS Auditor	14
8.	Annualize Costs for Pipeline Integrity	14
9.	Recognize Property Retirements	15
9a.	Plant in Service	15
9b.	Depreciation Reserves	15
10.	Recognize Property Additions	15
10a.	January and February CWIP Additions	15
10b.	Laterals Transferred in Jan & Feb 2005	15
10c.	Laterals to be Transferred in May 2005	15

10d.	Depreciation Reserves for Jan & Feb Lateral Transfers	15
10e.	Depreciation Reserves for May Lateral Transfers	15
11.	Annualize Current Depreciation Rates	16
12.	New Depreciation Study	17
13.	Property Taxes	18
14.	Adjust Working Cash	19
15.	Tax Effect of Annualized Interest	19

1

2 **Q. PLEASE DESCRIBE THE ADJUSTMENTS.**

3 **A. Adjustment No. 1, Annualize Revenue From Lateral Transfers,**

4 annualizes the revenues associated with new customers on SCE&G's gas system
5 as a result of the transfer of certain natural gas laterals from South Carolina
6 Pipeline Corporation ("SCPC") to SCE&G. Beginning in November of 2004,
7 SCPC transferred 27 natural gas laterals to SCE&G (at net book value) in
8 anticipation of SCPC's merger with SCG Pipeline and the resulting transition of
9 SCPC into a FERC regulated interstate pipeline to be known as Carolina Gas
10 Transmission Corporation ("CGTC"). These laterals were not a part of SCPC's
11 networked natural gas transmission system and will not be part of its anticipated
12 interstate transmission pipeline system.

13 In all, 49 industrial and large commercial customers were transferred to
14 SCE&G as a result of the transfer of these laterals. The adjustment annualizes

1 revenues for those customers transferred during the test period, and reflects a full
2 twelve months of estimated revenues for those customers transferred after the
3 close of the test period. It also adjusts lateral customers' revenue to reflect
4 billings at full tariff rates for the purposes of this proceeding. The effect of the
5 resulting adjustment, after taxes, is to increase test year margin revenue from
6 firm operations by \$1,586,411.

7 **Adjustment No. 2, Annualized Wages, Benefits and Payroll Taxes,**

8 annualizes the Company's salary expense at the end of the test year based on
9 salary levels in effect in February of 2005. Corresponding adjustments have
10 been made to payroll taxes and certain employee benefit costs. The effect of this
11 annualization is to increase after-tax expenses by \$742,041.

12 **Adjustment No. 3, Employee Benefit Related Adjustments,** reflects

13 three adjustments related to benefits the Company provides its employees.

- 14 ▪ **Adjustment No. 3(a), Annualize Pension Income** --This adjustment
15 annualizes the effect of additional income being generated by the
16 Company's pension plan in 2005 (versus 2004) and thereby reduces
17 after-tax test year O&M expenses by \$141,249. The performance of
18 the Company's pension fund in 2003 and 2004 has resulted in higher
19 investment balances in the plan such that results for calendar year
20 2005, projected by an actuarial study, exceed the results for 2004,

1 thereby enabling the Company to recognize this additional reduction in
2 test year expense.

3 ▪ Adjustment No. 3(b), Annualize Other Post Employment Benefits --

4 This adjustment annualizes the gas O&M portion of the Company's
5 expenses for Other Post Employment Benefits ("OPEB"s), principally
6 post-retirement health care benefits, to match the amounts required to
7 be accrued for these future expenses under projections for 2005 by the
8 Company's actuaries. The result is to decrease after-tax test year O&M
9 expenses by \$15,821. In addition, annualizing this adjustment in
10 OPEB expense results in a related increase in rate base. The effect of
11 this adjustment is to decrease other deferred credits by \$15,821.

12 **Adjustment No. 4, Adjust Long-term Disability Amortization,**

13 increases expense for the amortization of deferred costs associated with the
14 Company's long-term disability plan. In compliance with Statement of Financial
15 Accounting Standards No. 112, the Company has accrued a \$1,220,421 liability
16 related to gas operations associated with its long-term disability program. The
17 Company has deferred these costs in a regulatory asset account and proposes to
18 amortize them over 98 months.

19 In SCE&G's most recent electric rate order, Order No. 2005-2, entered in
20 Docket No. 2004-178-E, the Commission affirmed the accrual and amortization
21 of the electric component of these long-term disability expenses under the same

1 terms as proposed here. The 98 month amortization period for the gas
2 component of these expenses is consistent with the period over which the electric
3 component will be recovered pursuant to Order No. 2005-2. The 98 month
4 amortization for the gas component ensures that collection of both components
5 of this liability will be completed simultaneously. The effect of this adjustment is
6 to increase after-tax test year O&M expenses by \$92,279.

7 **Adjustment No. 5, Remove Employee Clubs**, reflects the removal of
8 costs related to the Company's Employee Clubs located at Pine Island, Sand
9 Dunes and Misty Lake. The effect of the adjustment is to lower SCE&G's gas
10 related after-tax expenses by \$55,381, plant in service by \$393,736, and
11 depreciation reserves by \$108,315. The Company is making this adjustment to
12 comply with the Commission's established practice as set forth in past orders.
13 By making this adjustment, the Company does not mean to imply that it agrees
14 with this treatment of employee club expenses or that it may not object to
15 removal of such costs from utility expenses in future proceedings.

16 **Adjustment No. 6, Manufactured Gas Plant Related Adjustments**,
17 adjusts O&M expenses to reflect the Company's proposal to terminate the
18 Environmental Clean-Up Cost ("ECC") recovery mechanism related to
19 Manufactured Gas Plant ("MGP") environmental clean up and monitoring costs,
20 and to adjust the balances in these accounts. The ECC mechanism was adopted
21 by the Commission in Order No. 94-1117, entered on October 27, 1994. As the

1 Company's Witness Mr. Jackson testifies, the passage of the Natural Gas Rate
2 Stabilization Act, Section 58-5-40 et seq. of the Code of Laws of South Carolina
3 (2005), has made it possible for the Commission to review all costs related to
4 operating SCE&G's natural gas system on an annual basis. Accordingly, it is no
5 longer necessary to have a special mechanism for specifically reviewing and
6 adjusting ECC related charges as a part of the annual Purchase Gas Adjustment
7 proceeding.

- 8 ▪ Adjustment No. 6(a), Amortize MGP Remediation Costs, reflects a
9 fixed amortization expense for the deferred MGP environmental
10 clean up costs. The ECC mechanism relied on a set volumetric
11 recovery factor (currently \$0.008 per therm), and the amount
12 recovered in any given time period necessarily varied based on the
13 throughput of gas subject to the charge. Under the Company's
14 proposal, volumetric recovery would cease, and current and future
15 deferred costs would be amortized as a general O&M expense in a
16 fixed annual amount. The Company proposes to continue to defer
17 and collect appropriate MGP related environmental costs in
18 regulatory asset accounts and to amortize the amounts in these
19 accounts through base rates. The Company requests that rates
20 established in this proceeding reflect a fixed annual amortization

1 of these expenses in the amount of \$1,428,827. This adjustment
2 decreases after-tax O&M costs by \$400,207.

- 3 ▪ Adjustment No. 6(b), Annualize Ongoing Expenses for MGP
4 Remediation, reflects a proposal by the Company to cease accruing
5 that portion of the MGP costs associated with on-going ground
6 water pumping and monitoring expenses, and instead to treat these
7 costs as normal O&M to be expensed as incurred. The reason for
8 this proposal is that these costs are of a recurring nature, akin to
9 expenses of operations. The effect of this adjustment is to increase
10 after-tax test year O&M expense by \$190,190 and to cease accrual
11 of the corresponding amounts as deferred debits for future
12 amortization.

13 Adjustment No. 7, Annualize Cost of ORS Auditor, adjusts the
14 Company's O&M expenses to reflect the assessment to the Company for the cost
15 of an additional ORS auditor mandated by the Natural Gas Rate Stabilization
16 Act, S.C. Code Section 58-5-480 (2005). The effect of this adjustment is to
17 increase after-tax O&M expense by \$37,050.

18 Adjustment No. 8, Annualize Costs for Pipeline Integrity, adjusts
19 O&M expenses to reflect pipeline integrity management costs related to the
20 inspection, testing and repair of high pressure pipe on its system. These costs are

1 necessary to protect the safety and integrity of SCE&G's system. The effect of
2 this adjustment is to increase after-tax O&M expense by \$299,488.

3 **Adjustment No. 9, Recognize Property Retirements**, reduces the
4 balance in the Company's Plant in Service Account and adjusts depreciation
5 reserves to recognize the pending retirements as of December 31, 2004.

6 ▪ Adjustment 9(a), Plant in Service, reduces the balance in the
7 Company's plant in service account by \$573,239 to reflect the
8 pending retirements.

9 ▪ Adjustment 9(b), Depreciation Reserves, makes a corresponding
10 reduction of \$573,239 in depreciation reserves.

11 **Adjustment No. 10, Recognize Property Additions**, updates the balance
12 in the Company's Plant in Service Account and depreciation reserves to reflect
13 other property additions and associated retirements.

14 ▪ Adjustment 10(a), January and February CWIP Additions--This
15 adjustment increases plant in service by \$3,098,631 and decreases
16 CWIP by \$2,557,338 related to additions to plant in service made as
17 of February 28, 2005, but not accounted for in other pro forma
18 adjustments.

19 ▪ Adjustments 10(b),(c),(d) and (e) -- Laterals Transferred to SCE&G--
20 ~~These~~ These adjustments increase plant in service by \$19,788,003 to reflect
21 the original cost of the laterals transferred to SCE&G by SCPC since

1 the close of the test period and also increase related depreciation
2 reserves to reflect reserves associated with these transfers of
3 \$5,186,912. The result of these adjustments is to reflect the recording
4 of the transfer at the actual net book value of these assets of
5 \$14,601,091.

6 **Adjustment No. 11, Annualize Current Depreciation Rates,** adjusts
7 depreciation expense using the rates approved by Commission Accounting Letter
8 dated July 5, 2000, effective January 1, 2000, and based on the adjusted plant in
9 service balances. The effect of this adjustment is to increase after-tax
10 depreciation expense by \$863,865.

11 In the past, the Commission has followed a policy of crediting a full year
12 of additional depreciation expense to depreciation reserves when rates are
13 changed. The Company has challenged this policy as a violation of the principles
14 that apply to historical test period rate making. The challenged adjustment
15 selectively focuses on one element of the Company's rate base, depreciation
16 reserves, and seeks to adjust them to reflect anticipated reserve levels at a future
17 point after the rates go into effect. The adjustment does not account for the
18 Company's investment in new and replacement facilities that would be expected
19 to take place during the intervening period, which investment would provide an
20 offsetting increase in net rate base. In addition, from an accounting standpoint,
21 the adjustment means that the Company can never recover the full amount of its

1 depreciation, since it is required to record a full year's worth of depreciation
2 which it has not recovered through revenues. Depreciation is the means by
3 which the Company recovers its investment in capital assets as they are used.
4 The challenged adjustment ensures that the Company can never recover the full
5 amount of that investment.

6 The adjustment has been based on the rationale that, because rates were
7 not reviewed annually, forward looking rates should be based on a higher level of
8 depreciation reserves than were actually reflected on the Company's books and
9 records at the end of the test period. Since the Commission will now monitor all
10 elements of the Company's net gas rate base and expense of gas operations on an
11 annual basis under the Natural Gas Rate Stabilization Act, the adjustment in
12 question is no longer necessary. Accordingly, in the depreciation pro forma
13 adjustment we have not credited a full year of depreciation expense to
14 depreciation reserve.

15
16 Adjustment No. 12, New Depreciation Study, reflects an increase in
17 annual depreciation expense after taxes of \$1,219,298. See Exhibit No. _____
18 (JJS -1).

19 **Q. IS THE COMPANY ASKING THAT THE NEW DEPRECIATION**
20 **RATES BE APPROVED IN THIS PROCEEDING?**

1 A. Yes. The Company is asking that the Commission approve in this
2 proceeding new composite depreciation rates as shown in Exhibit D-V of
3 the Application under the column labeled "Requested" and as supported
4 by the depreciation study in Exhibit No. ____ (JJS -1) to the testimony of
5 the Company's expert witness Mr. John J. Spanos. The Company also
6 proposes to record depreciation expense going forward based on the rates
7 associated with individual plant accounts as set forth in the depreciation
8 study.

9 **Q. PLEASE DISCUSS THE DERIVATION OF THE NEW GAS**
10 **DEPRECIATION RATES.**

11 A. The Company periodically reviews the appropriateness of its depreciation
12 rates for plant and equipment. These reviews, or depreciation studies,
13 consider the productive life, cost of removal, salvage value and the
14 mortality experience of the Company's property and equipment. As Mr.
15 Spanos testifies, the rates reflected in the study being submitted to the
16 Commission are designed to reflect a reasonable recovery period of the
17 Company's capital investment.

18 **Adjustment No. 13, Property Taxes,** increases after-tax expenses by
19 \$795,586 related to increases in taxes other than income taxes. This adjustment
20 is necessary to annualize the impact on the Company's property taxes by applying
21 the current average millage rate to the adjusted plant in service identified above.

1 **Adjustment No. 14, Adjust Working Cash,** adjusts working cash to
2 reflect the working cash requirements related to the adjustments set forth above.
3 The amount of the adjustment is an increase to rate base of \$206,175.

4 **Adjustment No. 15, Tax Effect of Annualized Interest,** reflects the
5 reductions in State income taxes of \$23,071 and Federal income taxes of
6 \$153,421 associated with the pro forma adjustments to rate base discussed
7 herein.

8 **Q. MR. SWAN, WHAT ARE YOU REQUESTING THE COMMISSION TO**
9 **DO IN THIS CASE?**

10 A. I respectfully request that in setting rates in this case, the Commission accept the
11 accounting and financial information provided, and the pro forma adjustments
12 and other recommendations set forth above.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A. Yes.

15
16

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2005-113-G

CONDENSED CONSOLIDATED (REGULATORY BASIS) BALANCE SHEET
As of December 31, 2004

CONDENSED CONSOLIDATED (REGULATORY BASIS) STATEMENT OF INCOME
For the Twelve Months Ended December 31, 2004

South Carolina Electric & Gas Company
Condensed Consolidated (Regulatory Basis) Balance Sheet
December 31, 2004
(Millions of Dollars)

Assets:

Utility Plant	6,695
Accumulated Depreciation and Amortization	(1,828)
	<hr/> 4,867
Construction Work in Progress	416
Nuclear Fuel, Net of Accumulated Amortization	42
Utility Plant, Net	<hr/> - 5,325

Nonutility Property and Investments:

Nonutility Property, Net of Accumulated Depreciation	27
Assets Held in Trust, Net – Nuclear Decommissioning	49
Other Investments	6
Nonutility Property and Investments, Net	<hr/> 82

Current Assets:

Cash and Cash Equivalents	11
Receivables – Net of Allowance for Uncollectible Accounts of \$1	267
Receivables - Affiliated Companies	19
Inventories (at average cost):	
Fuel	30
Materials and supplies	62
Emission allowances	9
Prepayments	25
Total Current Assets	<hr/> 423

Deferred Debits:

Environmental	11
Pension Asset, Net	285
Due from Affiliates-Pension and Postretirement Benefits	23
Other Regulatory Assets	365
Other	137
Total Deferred Debits	<hr/> 821

Total	<hr/> <hr/> \$6.651
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South Carolina Electric & Gas Company
Condensed Consolidated (Regulatory Basis) Balance Sheet
December 31, 2004
(Millions of Dollars)

Capitalization and Liabilities:

Shareholders' Investment:

Common Equity	2,164
Preferred Stock (Not Subject to Purchase or Sinking Funds)	106
Total Shareholders' Investment	2,270
Preferred Stock, Net (Subject to Purchase or Sinking Funds)	9
Long-Term Debt, Net	1,819
Total Capitalization	- 4,098

Current Liabilities:

Short-Term Borrowings	153
Current Portion of Long-Term Debt	195
Accounts Payable	104
Accounts Payable - Affiliated Companies	123
Customer Deposits	26
Taxes Accrued	156
Interest Accrued	34
Dividends Declared	37
Other	49
Total Current Liabilities	877

Deferred Credits

Deferred Income Taxes, Net	688
Deferred Investment Tax Credits	114
Asset Retirement Obligation-Nuclear Plant	124
Other Asset Retirement Obligations	336
Due to Affiliates - Pension and Postretirement Benefits	14
Postretirement Benefits	142
Other Regulatory Liabilities	184
Other	74
Total Deferred Credits	1,676

Total Capitalization and Liabilities	<u>\$6,651</u>
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See Notes to Condensed Consolidated (Regulatory Basis) Financial Statements.

South Carolina Electric & Gas Company
Condensed Consolidated (Regulatory Basis) Statements of Income
For the Twelve Months Ended December 31, 2004
(Million of Dollars)

Operating Revenues:	
Electric	\$1,692
Gas	397
Total Operating Revenues	<u>2,089</u>
Operating Expenses:	
Fuel Used in Electric Generation	393
Purchased Power (including affiliated purchases)	168
Gas Purchased for Resale	313
Other Operation and Maintenance	419
Depreciation and Amortization	211
Other Taxes	126
Total Operating Expenses	<u>1,630</u>
Operating Income	<u>459</u>
Other Income:	
Gain on Sale of Assets	1
Other Income (Loss), Including Allowance for Equity Funds of \$13	24
Total Other Income	<u>25</u>
Income Before Interest Charges, Income Taxes and Preferred Stock Dividends	484
Interest Charges, Net of Allowance for Borrowed Funds Used During Construction of \$9	<u>130</u>
Income Before Income Taxes and Preferred Stock Dividends	354
Income Taxes	<u>122</u>
Net Income	232
Preferred Stock Cash Dividends	<u>(7)</u>
Earnings Available for Common Shareholder	<u>\$225</u>

See Notes to Condensed Consolidated (Regulatory Basis) Financial Statements.

SOUTH CAROLINA ELECTRIC & GAS COMPANY
NOTES TO CONDENSED CONSOLIDATED (REGULATORY BASIS) FINANCIAL STATEMENTS
December 31, 2004
(Unaudited)

These regulatory basis financial statements include the accounts of South Carolina Electric & Gas Company (the Company) and South Carolina Fuel Company, Inc. (Fuel Company) only. They exclude the accounts of South Carolina Generating Company, Inc. which, under the provisions of Financial Accounting Interpretation (FIN) 46(R), would be consolidated with the Company in order for the financial statements to be in conformity with generally accepted accounting principles.

The following notes should be read in conjunction with the notes to the consolidated financial statements appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. In the opinion of management, the information furnished herein reflects all adjustments, all of a normal recurring nature, which are necessary for a fair statement of the results for the period reported on a regulatory basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company, a public utility, is a South Carolina corporation organized in 1924 and a wholly owned subsidiary of SCANA Corporation, a South Carolina corporation and a registered public utility holding company within the meaning of Public Utility Holding Company Act of 1935, as amended (PUHCA). The Company is engaged predominately in the generation and sale of electricity to wholesale and retail customers in South Carolina and in the purchase, sale and transportation of natural gas to retail customers in South Carolina.

The accompanying Condensed Consolidated (Regulatory Basis) Financial Statements reflect the accounts of the Company and Fuel Company, a wholly owned subsidiary of SCANA Corporation. Intercompany balances and transactions between the Company and Fuel Company have been eliminated in consolidation.

2. RATE AND OTHER REGULATORY MATTERS

With respect to rate and regulatory matters at December 31, 2004, reference is made to Note 2 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. No changes have occurred with respect to those matters as reported therein.

3. RETAINED EARNINGS

The Company's Restated Articles of Incorporation contain provisions that, under certain circumstances, could limit the payment of cash dividends on its common stock. In addition, with respect to hydroelectric projects, the Federal Power Act requires the appropriation of a portion of certain earnings therefrom. At December 31, 2004 approximately \$48 million of retained earnings were restricted by this requirement as to payment of cash dividends on common stock.

4. COMMITMENTS AND CONTINGENCIES

Reference is made to Note 10 to the consolidated financial statements appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. Commitments and Contingencies at December 31, 2004 include the following:

A. Lake Murray Dam Reinforcement

In 2001 the Company began construction to reinforce its Lake Murray Dam in order to comply with new federal safety standards mandated by FERC. Construction for the project and related activities is expected to cost approximately \$275 million (excluding AFC) and be completed in 2005. Costs incurred through December 31, 2004 totaled approximately \$240 million.

B. Nuclear Insurance

The Price-Anderson Indemnification Act (the Act) deals with public liability for a nuclear incident. Though the Act expired in 2003, existing licensees, such as the Company, are "grandfathered" under the Act until such time as it is renewed. The Act establishes the liability limit for third-party claims associated with any nuclear incident at \$10.8 billion. Each reactor licensee is currently liable for up to \$100.6 million per reactor owned for each nuclear incident occurring at any reactor in the United States, provided that not more than \$10 million of the liability per reactor would be assessed per year. SCE&G's maximum assessment, based on its two-thirds ownership of Summer Station, would be approximately \$67.1 million per incident, but not more than \$6.7 million per year.

The Company currently maintains policies (for itself and on behalf of Santee Cooper) with Nuclear Electric Insurance Limited. The policies, covering the nuclear facility for property damage, excess property damage and outage costs, permit retrospective assessments under certain conditions to cover insurer's losses. Based on the current annual premium, the Company's portion of the retrospective premium assessment would not exceed \$15.8 million.

To the extent that insurable claims for property damage, decontamination, repair and replacement and other costs and expenses arising from a nuclear incident at Summer Station exceed the policy limits of insurance, or to the extent such insurance becomes unavailable in the future, and to the extent that SCE&G's rates would not recover the cost of any purchased replacement power, the Company will retain the risk of loss as a self-insurer. The Company has no reason to anticipate a serious nuclear incident at Summer Station. If such an incident were to occur, it would have a material adverse impact on the Company's results of operations, cash flows and financial position.

C. Environmental

At the Company, site assessment and cleanup costs are deferred and amortized with recovery provided through rates. Deferred amounts, net of amounts previously recovered through rates and insurance settlements, totaled \$10.5 million at December 31, 2004. The deferral includes the estimated costs associated with the following matters.

The Company owns a decommissioned MGP site in the Calhoun Park area of Charleston, South Carolina. The site is currently being remediated for contamination. The Company anticipates that the remaining remediation activities will be completed by the end of 2005, with certain monitoring and other activities continuing until 2010. As of December 31, 2004, the Company has spent approximately \$20.5 million to remediate the Calhoun Park site, and expects to spend an additional \$1.3 million. In addition, SCE&G is party to certain claims for cost and damages from this site, for which claims the National Park Service of the Department of the Interior made an initial demand for payment of approximately \$9 million. Any costs arising from these matters are expected to be recoverable through rates under South Carolina regulatory processes.

The Company owns three other decommissioned MGP sites in South Carolina which contain residues of by-product chemicals. One of the sites has been remediated and will undergo routine monitoring until released by DHEC. The other two sites are currently being investigated under work plans approved by DHEC. The Company anticipates that major remediation activities for the three sites will be completed in 2010. As of December 31, 2004, the Company has spent approximately \$4 million related to these three sites, and expects to spend an additional \$4 million.

D. Claims and Litigation

On August 21, 2003, the Company was served as a co-defendant in a purported class action lawsuit styled as Collins v. Duke Energy Corporation, Progress Energy Services Company, and South Carolina Electric & Gas Company, in South Carolina's Circuit Court of Common Pleas for the Fifth Judicial Circuit. The plaintiffs are seeking damages for the alleged improper use of electric transmission and distribution easements but have not asserted a dollar amount for their claims. Specifically, the plaintiffs contend that the licensing of attachments on electric utility poles, towers and other facilities to non-utility third parties or telecommunication companies for other than the electric utilities' internal use along the electric transmission line right-of-way constitutes a trespass. The Company is confident of the propriety of the Company's actions and intends to mount a vigorous defense. The Company further believes that the resolution of these claims will not have a material adverse impact on its results of operations, cash flows or financial condition.

On May 17, 2004, the Company was served with a purported class action lawsuit styled as Douglas E. Gressette, individually and on behalf of other persons similarly situated, v. South Carolina Electric & Gas Company and SCANA Corporation. The case was filed in South Carolina's Circuit Court of Common Pleas for the Ninth Judicial Circuit. The plaintiff alleges the Company made improper use of certain easements and rights-of-way by allowing fiber optic communication lines and/or wireless communication apparatuses to transmit communications other than the Company's electricity-related internal communications. The plaintiff asserts causes of action for unjust enrichment, trespass, injunction and declaratory judgment. The plaintiff did not assert a specific dollar amount for the claims. The Company believes its actions are consistent with governing law and the applicable documents granting easements and rights-of-way. The Company intends to mount a vigorous defense and believes that the resolution of these claims will not have a material adverse impact on its results of operations, cash flows or financial condition.

A complaint was filed on October 22, 2003 against the Company by the State of South Carolina alleging that the Company violated the Unfair Trade Practices Act by charging municipal franchise fees to some customers residing outside a municipality's limits. The complaint alleged that the Company failed to obey, observe or comply with the lawful order of the SCPSC by charging franchise fees to those not residing within a municipality. The complaint sought restitution to all affected customers and penalties up to \$5,000 for each separate violation. The State of South Carolina v. SCE&G has been settled by an agreement between the parties, and the settlement has been approved by the court. The allegations are also the subject of a purported class action lawsuit filed in December 2003, against Duke Energy Corporation, Progress Energy Services Company and SCE&G (styled Edwards v. SCE&G). Duke Energy and Progress Energy have been voluntarily dismissed from the Edwards lawsuit. The Company believes that the resolution of these actions will not have a material adverse impact on its results of operations, cash flows or financial condition. In addition, the Company filed a petition with the SCPSC on October 23, 2003 pursuant to S. C. Code Ann. R.103-836. The petition requests that the SCPSC exercise its jurisdiction to investigate the operation of the municipal franchise fee collection requirements applicable to the Company's electric and gas service, to approve the Company's efforts to correct any past franchise fee billing errors, to adopt improvements in the system which will reduce such errors in the future, and to adopt any regulation that the SCPSC deems just and proper to regulate the franchise fee collection process.

The Company is also engaged in various other claims and litigation incidental to its business operations which management anticipates will be resolved without material loss to the Company.

SOUTH CAROLINA ELECTRIC & GAS COMPANY
OPERATING EXPERIENCE - TOTAL GAS
12 MONTHS ENDED DECEMBER 31, 2004
DOCKET NO. 2005-113-G

Line No.	Description	Regulatory Per Books	Pro-Forma Adjustments	Total As Adjusted
(Col. 1)		(Col. 2)	(Col. 3)	(Col. 4)
1	<u>Operating Revenues</u>	<u>398,868,458</u>	<u>2,582,074</u>	<u>401,450,532</u>
2	<u>Operating Expenses</u>			
3	O&M Expenses - Cost of Gas	314,983,882	-	314,983,882
4	O&M Expenses - Other	48,488,663	1,649,403	50,138,066
5	Depreciation & Amortization Expenses	12,957,652	2,856,789	15,814,441
6	Taxes Other Than Income	12,013,204	1,380,704	13,393,908
7	Total Income Taxes	<u>1,077,693</u>	<u>(1,440,586)</u>	<u>(362,893)</u>
8	Total Operating Expenses	<u>389,521,094</u>	<u>4,446,310</u>	<u>393,967,404</u>
9	Operating Return	9,347,364	(1,864,236)	7,483,128
10	Interest on Customer Deposits	<u>(332,997)</u>	<u>-</u>	<u>(332,997)</u>
11	<u>Return</u>	<u>9,014,367</u>	<u>(1,864,236)</u>	<u>7,150,131</u>
12	<u>Rate Base</u>			
13	Gross Plant in Service	506,432,909	21,919,659	528,352,568
14	Reserve for Depreciation	<u>(210,950,890)</u>	<u>(4,505,358)</u>	<u>(215,456,248)</u>
15	Net Plant	295,482,019	17,414,301	312,896,320
16	Construction Work in Progress	6,678,977	(2,557,338)	4,121,639
17	Deferred Debits / Credits	(6,933,731)	15,821	(6,917,910)
18	Accumulated Deferred Income Taxes	(37,771,135)	-	(37,771,135)
19	Materials & Supplies	1,463,811	-	1,463,811
20	Total Working Capital	<u>(5,776,523)</u>	<u>206,175</u>	<u>(5,570,348)</u>
21	Total Rate Base	<u>253,143,418</u>	<u>15,078,959</u>	<u>268,222,377</u>
22	<u>Rate of Return</u>	3.56%		2.67%
23	<u>Return On Equity</u>	0.65%		-1.11%

SOUTH CAROLINA ELECTRIC & GAS COMPANY
OPERATING EXPERIENCE - TOTAL GAS
12 MONTHS ENDED DECEMBER 31, 2004
DOCKET NO. 2005-113-G

Line No.	Description	As Adjusted	Proposed Increase	Total After Proposed Increase
	(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)
1	<u>Operating Revenues</u>	<u>401,450,532</u>	<u>28,482,732</u>	<u>429,933,264</u>
2	<u>Operating Expenses</u>			
3	O&M Expenses - Fuel	314,983,882	-	314,983,882
4	O&M Expenses - Other	50,138,066	-	50,138,066
5	Depreciation & Amortization Expenses	15,814,441	-	15,814,441
6	Taxes Other Than Income	13,393,908	143,268	13,537,176
7	Total Income Taxes	(362,893)	10,839,959	10,477,066
8	Total Operating Expenses	<u>393,967,404</u>	<u>10,983,227</u>	<u>404,950,631</u>
9	Operating Return	7,483,128	17,499,505	24,982,633
10	Interest on Customer Deposits	(332,997)	-	(332,997)
11	<u>Return</u>	<u>7,150,131</u>	<u>17,499,505</u>	<u>24,649,636</u>
12	<u>Rate Base</u>			
13	Gross Plant in Service	528,352,568	-	528,352,568
14	Reserve for Depreciation	(215,456,248)	-	(215,456,248)
15	Net Plant	312,896,320	-	312,896,320
16	Construction Work in Progress	4,121,639	-	4,121,639
17	Deferred Debits / Credits	(6,917,910)	-	(6,917,910)
18	Accumulated Deferred Income Taxes	(37,771,135)	-	(37,771,135)
19	Materials & Supplies	1,463,811	-	1,463,811
20	Total Working Capital	(5,570,348)	-	(5,570,348)
21	Total Rate Base	<u>268,222,377</u>	<u>-</u>	<u>268,222,377</u>
22	<u>Rate of Return</u>	2.67%		9.19%
23	<u>ROE</u>	-1.11%		11.75%

SOUTH CAROLINA ELECTRIC & GAS COMPANY
ACCOUNTING & PRO FORMA ADJUSTMENTS
OPERATING EXPERIENCE - TOTAL GAS
12 MONTHS ENDED DECEMBER 31, 2004
DOCKET NO. 2005-113-G

Adjust #	Description	Revenues	O&M Expenses	Deprec. & Amort. Expense	Taxes Other Than Income	State Income Tax @ 5%	Federal Income Tax @ 35%	Plant in Service	Accum. Deprec.	CWIP	Def. Debits / Credits	Working Capital
1	Annualize Revenue from Lateral Transfers											
	a) Laterals Transferred in Jan. & Feb. 2005	1,490,862			7,499	74,168	493,218					
	b) Laterals to be Transferred in May 2005	695,543			3,499	34,602	230,105					
	c) Adjust Lateral Customer Revenue for Tariff Rates	395,659			1,990	19,684	130,898					
2	Annualized Wages, Benefits and Payroll Taxes		1,122,369		79,317	(60,084)	(399,561)					
3	Employee Benefit Related Adjustments											
	a) Annualize Pension Income		(228,744)			11,437	76,057					
	b) Annualize Other Post Employment Benefits		(25,621)			1,281	8,519				15,621	
4	Adjust Long Term Disability Amortization			149,439		(7,472)	(49,688)					
5	Remove Employee Clubs		(71,601)	(18,085)		4,484	29,821	(393,736)	(108,315)			
6	Manufactured Gas Plant Related Adjustments											
	a) Amortize MGP Remediation Costs			(648,108)		32,405	215,496					
	b) Annualize Ongoing Expenses for MGP Remediation		308,000			(15,400)	(102,410)					
7	Annualize Cost of ORS Auditor		60,000			(3,000)	(19,950)					
6	Annualize Costs for Pipeline Integrity		485,000			(24,250)	(161,263)					
9	Recognize Property Retirements					-	-					
	a) Plant in Service					-	-	(573,239)				
	b) Depreciation Reserves								(573,239)			
10	Recognize Property Additions					-	-					
	a) January and February CWIP Additions					-	-	3,098,631		(2,557,338)		
	b) Laterals Transferred in Jan & Feb 2005							3,169,642				
	c) Laterals to be Transferred in May 2005							16,618,361				
	d) Depreciation Reserves for Jan & Feb Lateral Transfers								1,433,379			
	e) Depreciation Reserves for May Lateral Transfers								3,753,533			
11	Annualize Current Depreciation Rates			1,398,972		(69,949)	(465,158)					
12	New Depreciation Study			1,974,571		(98,729)	(656,545)					
13	Property Taxes				1,288,399	(64,420)	(428,393)					
14	Adjust Working Cash											206,175
15	Tax Effect of Annualized Interest					(23,071)	(153,421)					
	Total Adjustments	2,582,074	1,649,403	2,656,789	1,380,704	(188,312)	(1,252,274)	21,919,659	4,505,358	(2,557,338)	15,821	206,175

SOUTH CAROLINA ELECTRIC & GAS COMPANY
STATEMENT OF FIXED ASSETS - TOTAL GAS
AT DECEMBER 31, 2004
DOCKET NO. 2005-113-G

Line No.	Description	Regulatory Per Books	Adjustments	As Adjusted
	(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)
Gross Plant in Service				
1	Intangible Plant	7,600,395	-	7,600,395
2	Production	11,227,173	66,319	11,293,492
3	Distribution	437,619,926	21,912,898	459,532,824
4	General	31,886,466	334,678	32,221,144
5	Common (1)	18,098,948	(394,236)	17,704,713
6	Total Gross Plant in Service	506,432,909	21,919,659	528,352,568
Construction Work in Progress				
7	Production	66,494	(66,494)	-
8	Distribution	3,757,455	(2,158,228)	1,599,227
9	General	982,408	(332,616)	649,792
10	Common (1)	1,872,620	-	1,872,620
11	Total Construction Work in Progress	6,678,977	(2,557,338)	4,121,639

(1) Gas Portion

SOUTH CAROLINA ELECTRIC & GAS COMPANY
STATEMENT OF DEPRECIATION RESERVES - TOTAL GAS
AT DECEMBER 31, 2004
DOCKET NO. 2005-113-G

Exhibit No. (JES-4)

Line No.	Description	Per Books	Adjustments	As Adjusted
	(Col. 1)	(Col. 2)	(Col. 3)	(Col. 4)
1	Intangible Plant	4,149,878	-	4,149,878
2	Production	5,759,732	-	5,759,732
3	Distribution	182,948,885	4,645,057	187,593,942
4	General	12,256,563	(30,884)	12,225,679
5	Common	<u>5,835,832</u>	<u>(108,815)</u>	<u>5,727,017</u>
6	Total	<u>210,950,890</u>	<u>4,505,358</u>	<u>215,456,248</u>

The Composite Depreciation Rates used in computing annual depreciation expense are shown below:

	Current	Requested
7 Gas Production	1.27%	2.19%
8 Gas Distribution	2.28%	2.63%
9 Gas General	4.32%	5.83%
10 Common Plant	15.12%	15.12%